

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

PORTAGE - BASE LAKES AREA WATER
AND
SEWER AUTHORITY

ANNUAL FINANCIAL
REPORT

FOR THE YEAR ENDED MARCH 31, 2006

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PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

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August 10, 2006

Portage - Base Lakes Area
Water and Sewer Authority
10405 Merrill Road
P.O. Box 726
Hamburg, Michigan 48139

INDEPENDENT AUDITORS' REPORT

Honorable Authority Members:

We have audited the accompanying financial statements of the Portage - Base Lakes Area Water and Sewer Authority as of and for the year ended March 31, 2006. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Portage - Base Lakes Area Water and Sewer Authority, as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Portage - Base Lakes Area Water and Sewer Authority's basic financial statements. The supplementary information presented for purposes of additional analysis is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, fairly states in all material respects in relation to the basic financial statements as a whole.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT
DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis March 31, 2006

Within this section of the Portage – Base Lakes Area Sewer & Water Authority financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended March 31, 2006. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues, Expenses and Changes in Net Assets which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a sewer system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$8,695,834. This is a \$141,736 decrease over last year's net assets of \$8,837,570.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	<u>03/31/2006</u>	<u>03/31/2005</u>
Current and other assets	\$ 425,184	\$ 507,513
Reserved assets	1,041,520	928,451
Capital assets, net	<u>7,233,381</u>	<u>7,436,411</u>
Total assets	<u>8,700,085</u>	<u>8,872,375</u>
Accounts payable and other current liabilities	<u>4,251</u>	<u>34,805</u>
Net assets:		
Invested in capital assets, net of related debt	7,233,381	7,436,411
Unrestricted	<u>1,462,453</u>	<u>1,401,159</u>
Total net assets	<u><u>\$ 8,695,834</u></u>	<u><u>\$ 8,837,570</u></u>

Summary of Changes in Net Assets

	<u>03/31/2006</u>	<u>03/31/2005</u>
Operating revenues	<u>\$ 333,154</u>	<u>\$ 354,313</u>
Operating expenses		
System operations	492,362	466,937
Administrative	<u>34,348</u>	<u>15,629</u>
Total operating expenses	<u>526,710</u>	<u>482,566</u>
Operating income	(193,556)	(128,253)
Non-operating revenues, net	<u>51,820</u>	<u>33,526</u>
Net (loss)	(141,736)	(94,727)
Beginning net assets	<u>8,837,570</u>	<u>8,932,297</u>
Ending net assets	<u><u>\$ 8,695,834</u></u>	<u><u>\$ 8,837,570</u></u>

Revenues from operations decreased by 6.0%, as the quarterly service charge was reduced to \$60.00 per user from \$65.00 per user. Users of the system remained relatively unchanged for the year. Operating expenses increased over the prior year, as non-recurring repairs and maintenance for various pump stations was performed during the year ended March 31, 2006. Net non-operating revenues increased, as interest yields on invested cash have increased along with market rates.

As a result, net increased from \$94,727 for the year ended March 31, 2005 to \$141,736 for the year ended March 31, 2006.

Capital and Debt Administration

As of March 31, 2006, the authority had only no bonds outstanding for the sewage treatment system.

The Authority did not have any construction projects in progress during the year.

Economic Factors and Next Year's Goals

The Authority's financial outlook continues to remain strong. The Authority continues to save part of its quarterly charge for future capital replacement. As of March 31, 2006 the cash saved for capital replacement was \$1,041,520 and growing.

The Authority faces challenges in the future, as well. Rising energy and fuel costs pose challenges to both the Authority and its customers. In addition, an aging system will require increasing repairs and replacement as time goes on.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 10405 Merrill Road, Hamburg, MI 48139.

BASIC
FINANCIAL
STATEMENTS

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
STATEMENT OF NET ASSETS
MARCH 31, 2006

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 313,501	
Accounts receivable - billings	<u>111,683</u>	
Total current assets		\$ 425,184

RESERVED ASSETS

Cash and cash equivalents - equipment replacement		1,041,520
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PROPERTY, PLANT AND EQUIPMENT

Land	115,282	
Sewer system	10,151,462	
Operating equipment	7,290	
Office equipment	<u>4,950</u>	
	10,278,984	
Less accumulated depreciation	<u>3,045,603</u>	
Net property, plant and equipment		<u>7,233,381</u>
Total assets		8,700,085

LIABILITIES

CURRENT LIABILITIES

Accounts payable		<u>4,251</u>
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NET ASSETS

NET ASSTS

Investment in capital assets, net of related debt	7,233,381	
Unreserved - sewer	<u>1,462,453</u>	
Total net assets		<u>\$ 8,695,834</u>

The accompanying notes are an integral part of these financial statements

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED MARCH 31, 2006

OPERATING REVENUES

Sewer billings	\$ 308,159
Tap-in inspections	<u>24,995</u>

Total operating revenues		\$ 333,154
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OPERATING EXPENSES

Audit and accounting	6,000
Billing charges	3,284
Consulting fees	1,011
Contracted services	24,000
Contingency	12,377
Depreciation	203,030
Per diem fees	2,475
Insurance	25,018
Legal	463
Miss Dig	952
Office expense	789
Utilities	44,543
Repairs and maintenance - grounds	1,745
Repairs and maintenance - equipment	127,624
Sewer service contract	67,770
Supplies	1,013
Telephone	3,800
Drywell expenses	<u>816</u>

Total operating expenses		<u>526,710</u>
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Operating (loss)		(193,556)
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NON-OPERATING REVENUES

Interest income - restricted	42,159
Interest income - unrestricted	1,803
Miscellaneous income	6,678
Net member contributions	<u>1,180</u>

Total non-operating revenues		<u>51,820</u>
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Net (loss)		<u>\$ (141,736)</u>
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The accompanying notes are an integral part of these financial statements

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2006

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

Receipts from customers	\$ 343,953	
Other receipts	6,678	
Payments to vendors	<u>(354,234)</u>	
Net cash (used in) operating activities		\$ (3,603)

CASH FLOWS FROM (USED IN) CAPITAL AND
RELATED FINANCING ACTIVITIES

Contributions from members	1,180
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest income - unrestricted	1,803	
Interest income - restricted	<u>42,159</u>	
Net cash from investing activities		<u>43,962</u>

Increase in cash	41,539
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CASH AND CASH EQUIVALENTS AT APRIL 1, 2005	<u>1,313,482</u>
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CASH AND CASH EQUIVALENTS AT MARCH 31, 2006	<u>\$ 1,355,021</u>
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RECONCILIATION OF OPERATING (LOSS) TO
NET CASH FROM OPERATING ACTIVITIES

Operating (loss)	\$ (193,556)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities	
Miscellaneous income	6,678
Depreciation expense	203,030
Changes in assets and liabilities	
Decrease in accounts receivable	10,799
(Decrease) in accounts payable	<u>(30,554)</u>
Net cash (used in) operating activities	<u>\$ (3,603)</u>

No taxes or interest was paid during the year.

The accompanying notes are an integral part of these financial statements

NOTES
TO
FINANCIAL STATEMENTS

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

**NOTE 1 - DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
OF THE REPORTING ENTITY**

The Portage - Base Lakes Area Water and Sewer Authority was established on September 21, 1988, under Act No. 233, Public Acts of Michigan, 1955 as amended. The purpose of this Authority is to acquire, own, improve, enlarge, extend and operate a water supply system, a sewage disposal system, or both. The following units are the incorporating municipal corporations:

<u>Municipality</u>	<u>Interest</u>
Hamburg Township	35.30
Dexter Township	32.47
Putnam Township	24.19
Webster Township	<u>8.04</u>
	<u>100.00</u>

Based on the criteria established by Government Accounting Standards Board (GASB) Statement Number 39, all funds, activities and agencies are included in the Authority's reporting entity.

The Authority Board is composed of two members appointed by the Dexter Township Board and one member appointed by the Hamburg, Putnam, and Webster Township Boards, respectively.

A. SIGNIFICANT ACCOUNTING POLICIES

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an Enterprise Fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities:

1. that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
2. that are required by laws or regulations that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar reviews; or
3. that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

B. MEASUREMENT FOCUS

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less are considered to be cash equivalents.

D. CAPITAL ASSETS

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 40 years for equipment and 5 to 40 years for buildings, structures, and improvements.

E. CONSTRUCTION-IN-PROGRESS

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

F. CAPITALIZATION OF INTEREST

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

G. PREMIUM, AND ISSUANCE COSTS

Bond discount, premium, and issuance costs are amortized over the term of the related bonds. No such bond discount/premiums or issuance costs were outstanding or issued during the year ended March 31, 2006.

H. INCOME TAXES

As a governmental agency, the Authority is exempt from both federal income taxes and Michigan Single Business Tax.

NOTE 2 - MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws, Section 129.91 authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 200,000	\$ 200,000
Uninsured and uncollateralized	<u>1,155,021</u>	<u>1,174,393</u>
Total deposits	<u>\$ 1,355,021</u>	<u>\$ 1,374,393</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the Authority for the year ended March 31, 2006 was as follows:

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/06</u>
Land	\$ 115,282	\$	\$	\$ 115,282
Sewer system	10,151,462			10,151,462
Operating equipment	7,290			7,290
Office equipment	<u>4,950</u>			<u>4,950</u>
Total	10,278,984			10,278,984
Accumulated depreciation	<u>2,842,573</u>	<u>203,030</u>		<u>3,045,603</u>
Capital assets, net	<u>\$ 7,436,411</u>	<u>\$ (203,030)</u>	<u>\$</u>	<u>\$ 7,233,381</u>

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 4 - CAPITAL ASSETS (continued)

The system is being depreciated over a 50 year period on a straight line basis. Office and operating equipment is being depreciated over a five year period on a straight line basis.

There was no related debt outstanding on the capital assets as of March 31, 2006.

NOTE 5 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following is a schedule of beginning and ending cash and cash equivalents:

	<u>April 1, 2005</u>	<u>March 31, 2006</u>
Unrestricted		
Cash and cash equivalents	\$ 385,031	\$ 313,501
Restricted		
Cash and cash equivalents	<u>928,451</u>	<u>1,041,520</u>
Total cash and cash equivalents	<u>\$ 1,313,482</u>	<u>\$ 1,355,021</u>

NOTE 6 - SEWER BILLINGS

The system currently has 1,262 users. During the year the Authority maintained the quarterly charge of \$60.00. The entire \$60.00 is for operation and maintenance. Furthermore, the board made a \$70,910 transfer of operating funds into the funds restricted for capital replacement. It is expected that annual transfers from operating funds to the restricted capital replacement funds will be made going forward.

NOTE 7 - RESERVED ASSETS

The amounts shown as reserved assets are to be used for the replacement and improvement of the sewer system and sewer system components.

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE 8 - CONTINGENCIES

The Authority is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of the Authority.

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 10 - PENSION PLAN - DEFINED CONTRIBUTION PLAN

The defined contribution plan of Portage-Base Lakes Area Water and Sewer Authority is a fully insured plan funded by both employer and employee contributions. An employee may make voluntary contributions of up to 10% of their annual compensation. All participants are vested 100% immediately.

A participant includes all employees as of the beginning of the plan year (February 1) or after completing one month of service. The Authority pays 10% of compensation as its annual contributions. The plan name is "Group Pension Plan" #001 through Manulife.

For the year ended March 31, 2006 all the duties to run the daily operations of the Authority were performed by outside service providers and one of the member Townships in exchange for a fee. As a result, total contributions for the year ended March 31, 2006 was \$0. Total covered payroll was \$0.

NOTE 11 - SEGMENT INFORMATION

Selected financial information is as follows:

Operating	
Revenues	\$ 333,154
(Loss)	\$ (193,556)
Depreciation	\$ 203,030
Total assets	\$ 8,700,085
Total net assets	\$ 8,695,834
Working capital	\$ 420,933

PORTAGE - BASE LAKES AREA WATER
AND
SEWER AUTHORITY

COMMENTS
AND
RECOMMENDATIONS

FOR THE YEAR ENDED MARCH 31, 2006

August 10, 2006

Board of Trustees
Portage-Base Lakes Area Water and Sewer Authority
10405 Merrill Road
P.O. Box 726
Hamburg, MI 48139

Honorable Board of Trustees:

In planning and performing our audit of the financial statements of Portage-Base Lakes Area Water and Sewer Authority for the year ended March 31, 2006, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. Those matters are as follows:

1. COMMENT

Billings did not reconcile to general ledger.

RECOMMENDATION

Reconcile billings on a regular basis to postings in general ledger and verify accounts receivable balances.

2. COMMENT

Cash was not reconciled to the general ledger.

RECOMMENDATION

The cash balances should be reconciled to the general ledger monthly.

3. COMMENT

Noted several expenditure classification inconsistencies.

RECOMMENDATION

Care should be taken to post the general ledger in the appropriate accounts.

4. COMMENT

Several disbursements were made without backup information.

RECOMMENDATION

Authority should not pay vendors without approval from an original invoice.

This letter does not affect our report dated August 10, 2006 on the financial statements of Portage-Base Lakes Area Water and Sewer Authority.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees, and management of the Portage-Base Lakes Area Water and Sewer Authority.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants